

Office of Inspector General

**U.S. Department of Labor
Office of Audit**

**The Atlanta Private Industry Council
Audit of Selected
Program Year 1996
JTPA Contracts**

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ACRONYMS

CASA	-	Chinese American Service Agency
CATP	-	Commercially Available Training Package
ETA	-	Employment and Training Administration
GDOL	-	Georgia Department of Labor
GED	-	General Equivalency Diploma
OIG	-	Office of Inspector General
OJT	-	On-the-Job Training
JTPA	-	Job Training Partnership Act
OAS	-	Office Automation Services, Inc.
PIC	-	Private Industry Council
PY	-	Program Year
SDA	-	Service Delivery Area
SOF	-	Statement of Facts
STI	-	Strategic Training Interventions
RFP	-	Request for Proposal
UI	-	Unemployment Insurance

EXECUTIVE SUMMARY

The Office of Inspector General audited Job Training Partnership Act (JTPA) program expenditures of the Atlanta Private Industry Council (PIC). Our examination focused on selected JTPA Title IIA contracts awarded vendors to provide program participants training, placement and other services, during Program Year (PY) 1996.

Audit Results We found that better service could have been provided participants, at a lower cost, had the PIC properly applied JTPA procurement requirements and adequately monitored the activities of its contractors. We also questioned \$543,117 in grant expenditures that were not in compliance with JTPA requirements.

Procurement Concerns Poor planning contributed to hasty selection of contractors, several of whom were not competitively procured. Often, the PIC did not determine contractors' capabilities to deliver services, complete adequate price or cost analysis or consider contractors' past records of success prior to awarding the contracts. We also found fixed-unit-price contracts were improperly negotiated, as were some training contracts that were improperly awarded as commercially available training packages.

Poor Monitoring of Contractors' Activities Although the PIC had established a monitoring plan and developed adequate guidance for its staff, the plan was not completed and established procedures were not followed.

As a consequence, we identified a variety of problems with both the PIC's and its contractors' activities. Financial concerns included funds advanced to contractors that had not been recovered, expenditures charged to the wrong JTPA grant and unsupported contractors' costs were billed to the JTPA program.

The PIC must better evaluate contractors' effectiveness in serving participants. We found contracts were poorly written and did not contain sufficient requirements that allowed the PIC to effectively monitor contractors' performance or ensure participants were well served. Contracts often failed to describe contractors' responsibilities and when present, contract requirements were not enforced. In

several instances, records supporting the training participants had received and the knowledge they had gained was partially or wholly missing. Finally, we identified several instances of abuse, such as contractor's claims they had placed participants in jobs that our contacts with employers indicated had not occurred. We believe better monitoring by the PIC should have detected such situations.

Recommendations The report discusses numerous recommendations for strengthening the PIC's management of its contract procurement and monitoring processes. However, many of the weaknesses we discuss could be corrected if the PIC would follow existing internal control and administrative procedures. We also recommend the Assistant Secretary for Employment and Training recover \$543,117 in misspent JTPA funds.

The PIC's Response to Our Draft Audit Report The PICs acknowledged weaknesses in its procurement and monitoring systems, but does not believe its oversight of grant activities was inadequate. The PIC also disagreed with many of our findings and questioned costs related to specific contracts, indicated it had complied with program requirements, and indicated additional documentation was available that was not considered. The complete text of the PIC's response is included as Exhibit I of the report.

Conclusions We remain convinced that poor stewardship of its contract procurement process and contractors' activities were principal causes for many of the PIC's problems discussed in this report. Although the PIC asserts that it complied with all JTPA and GDOL requirements, we identified many violations of those requirements. We reviewed all documentation available and found it did not provide us with information that caused us to reduce the costs we have questioned. We recommend the Assistant Secretary for Employment and Training recover \$543,117¹ in misspent JTPA funds from the Atlanta PIC and monitor the PIC's activities to ensure corrective action has been implemented.

¹Individual amounts we have questioned exceed the net amount of \$543,117 because some costs were questioned for more than one reason.

INTRODUCTION

Concerns With the Atlanta PIC's JTPA Programs

In early 1998, the Georgia Department of Labor (GDOL) identified program deficiencies during their monitoring of the PIC's administrative systems. The GDOL completed a review of certain of the PIC's activities and reported serious problems with the PIC's procurement and contracting systems and the PIC's monitoring of the contractors' activities.

Based on our analysis of the program deficiencies reported by GDOL and annual JTPA performance data reported by the PIC and the State, we conducted a limited-scope program performance audit to determine whether JTPA Title IIA funding allocated to the Atlanta PIC during PY 1996 were spent in accordance with the JTPA and Federal regulations.

Purpose of the JTPA

The JTPA amendments of 1992 (Public Law 102-367) authorized funds for programs intended to help youths and adults, who face serious barriers to employment, participate in the labor force. JTPA program participants may receive job training or other services that are expected to increase their educational and occupational skills resulting in long-term employment and reduced welfare dependency. Federal funds for JTPA programs are provided to states, in accordance with an agreement between each governor and the Secretary of Labor. The agreements contain assurances that the states will comply with the JTPA's provisions and regulations.

In turn, a majority of the JTPA grant funds provided governors are distributed to local Private Industry Councils (PICs). The PICs administer JTPA programs, in accordance with a service delivery plan submitted to the governor, and oversee the activities of their respective service delivery areas (SDAs). Each governor is responsible for the stewardship of all SDAs' JTPA program activities in a state.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives Our objectives were to determine if contract procurement requirements had been satisfied and if the PIC had exercised sufficient oversight of contractors' activities to ensure JTPA participants were properly served.

Scope Our audit focused on the Atlanta PIC's contract procurement and monitoring activities that were funded with JTPA Title IIA monies, during PY 1996. The Atlanta PIC was allocated \$1,563,777 in Title IIA funds for PY 1996. We chose a sample of 14 JTPA Title IIA contracts from among the PIC's PY 1996 JTPA service providers' contracts. (See Attachment A for details related to each contract reviewed.) Expenditures for the 14 contracts we audited totaled \$704,669, or 45 percent of the JTPA Title IIA funds allocated to the Atlanta PIC for PY 1996.

During the course of our review, we identified material weaknesses in the PIC contract procurement and monitoring activities, which we discuss in the "Results of Audit" section of this report. Our audit was conducted in accordance with Government Auditing Standards, published by the Comptroller General of the United States, and included such tests as we considered necessary to satisfy our limited scope review. We began our field work in June 1998 and it continued intermittently through June 1999.

Methodology We reviewed GDOL and Atlanta PIC policies and procedures related to JTPA Title IIA activities. Using contract and participant files maintained by the PIC, we reviewed each of the 14 contracts to evaluate adherence to JTPA laws and regulations. When available, we reviewed related contractor records and attempted to evaluate training received and outcome achieved by the participants.

For those participants terminated as placed in employment, we obtained State UI wage data to determine if wages were reported by the placement employer, and attempted to contact and interview the reported placement employer. We obtained and reviewed records from the JTPA 13th week followup system. In addition, we obtained and analyzed State management information system (MIS) data for each participant enrolled in the 14 training contracts. In order to determine total funds expended on each contract, we obtained financial data related to each of the 14 service providers from the City of Atlanta's Finance Department.

The PIC was provided a "Statement of Facts" (SOF) that discussed issues identified for each of the 14 contracts we reviewed and given an opportunity to respond. In addition, comments were solicited from

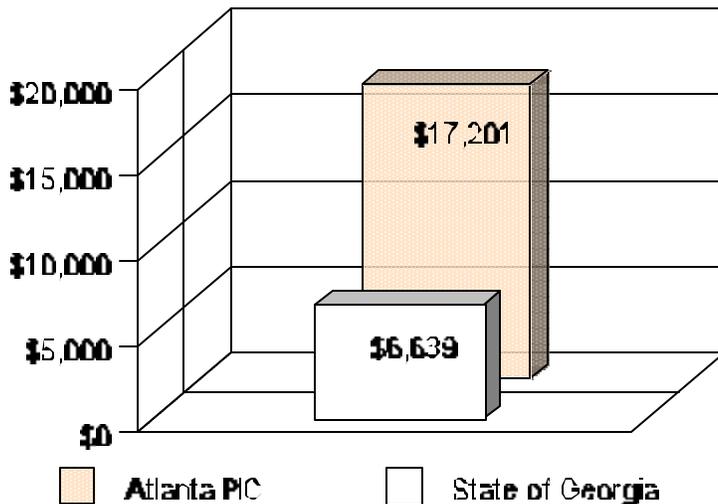
the PIC to our draft audit report. We have considered the PIC's response to our SOF and draft audit report in preparing this document.

RESULTS OF AUDIT

The objectives of the JTPA Title IIA programs are to help adults overcome barriers to employment, improve their basic educational and occupational skills and increase their employment prospects and earnings. The Atlanta PIC's PY 1996 Title IIA program did not achieve these objectives.

Program data reported to the State show that only a small portion of the PIC's PY 1996 program participants received job placement assistance and the costs associated with those placed were high. Some 511 participants were terminated from the Atlanta PIC's JTPA Title IIA program in PY 1996. Two-thirds of the participants (341) that terminated received only assessment services. Of the remaining terminated participants, 93 (18 percent) were reported as placed in employment.

**Average Cost Per Placement
PY 1996 JTPA Title IIA Activities**



The PIC spent a total of \$1,599,694 in JTPA Title IIA funds during PY 1996, or an average of \$17,201 per participant who was placed in employment. As illustrated in the chart, the Atlanta PIC's average cost per placement was over two and one-half times the State's average JTPA Title IIA cost of \$6,639.

Although high, the PIC's average cost per placement may be understated, as we have concerns regarding the validity of many placements reported by the PIC in the contracts we examined.

Of the 278 participants enrolled in the 14 JTPA contracts we reviewed, 141 participants were reported as placed in employment. However, we had questions regarding 78 (55 percent) of

the placements.² For 20 of the participants reported as placed, we were unable to contact the employer reported to have hired them or to verify their employment from alternate sources.³ For the remaining 121 participants reported as placed, we identified a variety of questionable practices which distorted program statistics. Our concerns include:

- employers who indicate they did not hire participants reported as working for them;
- participants who contractors reported were placed with employers they had worked for before and during their JTPA training;
- contractors who received fees for placing participants with themselves;
- contractors who were paid for placing participants in JTPA-subsidized training positions with other of the PIC's contractors; and
- participants identified as placed in employment on whom little or no wages were reported following their termination from the JTPA program.

We have questioned expenditures of \$543,117 related to the 14 contracts we examined. Problems we have identified are discussed in the following chapters of this report and costs we have questioned are summarized in Attachment B. A synopsis of contracts we examined and our concerns with each are contained in Attachments C-1 through C-14 of this report.

The PIC had sufficient controls and administrative procedures in place to have properly evaluated proposals, ensured the contractors were competitively selected, adequately monitored their activities, and complied with other of the JTPA's requirements. However, the procedures were either carelessly completed or were not followed.

²The numbers of participants associated with the contracts we examined exceeded the number of participants reported by the PIC in PY 1996. We reviewed the activities of selected contracts that were awarded in PY 1996 throughout their periods of performance. The activities of the contracts we reviewed often extended into PY 1997. As discussed later in this report, the PIC awarded many of its PY 1996 contracts very late in the program year. Consequently, fewer participants are included in the PY 1996 program statistics.

³ Procedures we employed to confirm participants' employment are discussed in the "Objectives, Scope and Methodology" section of this report. We have not questioned costs solely because participants' employment could not be confirmed with the placement employers.

As discussed in the following chapters of the report, we attribute problems we identified to the PIC's disregard for JTPA procurement and other contracting requirements (Chapter I) and lack of effective oversight of the contractors' program and financial activities (Chapter II).

The PIC responded to both the draft report's overall findings, conclusions and recommendations and to specific problems reported in each of the contracts we examined. A summary of the PIC's response and our conclusions relating to procurement and monitoring concerns are presented at the end of Chapters I and II, respectively. Summaries of the PIC's comments regarding specific contracts we examined have been incorporated into Attachments C-1 through C-14. Exhibit I of this report contains the PIC's entire response to the draft report. The PIC's comments and our conclusions regarding the JTPA programs' overall effectiveness follow.

ATLANTA PIC'S RESPONSE TO DRAFT REPORT

The PIC argued that comparisons of the PIC's average cost per placement to the statewide average, "is misleading and serves no purpose." The PIC commented it had, "met and exceeded" mandated performance standards for PY 1996 and the high average cost of placing adults in employment was due, "... mainly to a low enrollment rate ..." for which the State granted a performance waiver. The PIC also believes the comparison is unfair because:

Many of the selected contracts reviewed provided participant services after June 30, 1997 and therefore were not components of the Program Year (PY) 1996 Performance.

The PIC also indicated the average cost per placement was not understated, contrary to OIG's concerns. Although the PIC agreed that its monitoring effort should have included random verification of placements, the response indicates all placements were verified, "... in accordance with standard and acceptable practices." Regarding OIG's concerns that some reported placement employers said that they did not hire the participants, the PIC responded that employers attested to hiring the participants.

The PIC believes it is acceptable that participants were placed with employers they had worked for before and during their JTPA training. It is the PIC's opinion that this is allowable. Further, the PIC said it was also allowable for the contractors to have received fees for placing participants with themselves.

The PIC disagreed with OIG's contention that contractors were paid for placing participants in JTPA-subsidized training positions with other of the PIC's contractors. The PIC also disputed OIG's remarks concerning participants having little or no reported wages following termination from JTPA.

OIG'S CONCLUSION

Based on the many program weaknesses identified in this report, we believe the large variance between the PIC's and the State's average participant placement costs are a cause for concern and signal the need for improvements in the PIC's programs. The PIC's response that it "met and exceeded" mandated performance standards for PY 1996 is incorrect. Due to interruption caused by the Olympics, the PIC requested and the State granted adjustments to its PY 1996 standards. However, the PIC did not meet the amended "adult entered employment" standard.

We also reviewed the PIC's PY 1997 final performance standards and actual performance as reported by GDOL, because many of the participants who entered programs during PY 1996 did not terminate from the program until PY 1997. We found that in PY 1997, the PIC did not meet the "adult employment rate at follow-up" or the "adult entered employment rate" performance standards.

Consequently, the interruption in services caused by the Olympics may have contributed to the PIC's low adult performance standards for PY 1996. However, evidence suggests it is an ongoing problem. We continue to believe that, due to the weaknesses identified in this report, the PIC did not effectively deliver assistance to JTPA participants.

Although the PIC asserts that its average cost per placement was not understated and that all placements were verified in accordance with "... standard and acceptable practices," we found otherwise. In our contacts with employers, we identified several participants who were claimed as placed, but had not been hired by the employer. Questionable placements have understated the PIC's average cost.

We continue to believe that in the instances we identified in this report, it was improper to use JTPA funds to pay the contractors for placing participants with themselves or in JTPA-subsidized training positions with other PIC contractors.

CHAPTER I THE ATLANTA PIC DID NOT PROPERLY MANAGE CONTRACT PROCUREMENT

The Atlanta PIC exercised poor stewardship over its PY 1996 contract awards and often did not apply JTPA procurement requirements. Poor planning resulted in acceptance of unsolicited proposals and contributed to a lack of competitive procurement in selecting contractors. While the PIC had sufficient procedures in place to review contract proposals, the contractors' capabilities to deliver services were not evaluated, adequate cost/price analyses were not performed before contracts were awarded, provisions of fixed-unit-price contracts were improperly negotiated, and the reasonableness of prices charged for training packages were not evaluated.

Poor Planning Contributed to Lack of Competitive Procurement

Nine of 14 contracts we examined (64 percent) were not competitively procured. Rather, they were the product of unsolicited proposals, many of which were hurriedly awarded late in the program year.

As a condition for receiving appropriations, each SDA must submit an annual job training plan to the Governor describing planned uses to be made of JTPA funds. On August 22, 1996, the PIC sent its Title II, PY 1996 job training plan to GDOL. GDOL approved the plan on January 3, 1997. It indicated that a total of \$1,800,166 in Title IIA funds were available,⁴ of which the PIC committed \$1,175,830 to planned activities. However, the remaining balance of \$624,336, or nearly 35 percent of the total available, were identified by the PIC as funds whose use would "be determined."

A March 10, 1997 memorandum in the PIC's procurement files justified the acceptance of unsolicited proposals not competitively procured. According to the memorandum, the PIC's planning staff was not aware a substantial portion of the PY 1996 JTPA funds were available:

PIC Fiscal staff provided financial data to the PIC and PIC Operational Planning staff during the week of March 8, 1997. They have identified unexpended program funds for Titles IIA/C for Program Year 1996. Because PIC Fiscal did not make this information available before January and because three quarters of the Program Year have elapsed. PIC Administrative staff has determined that use of the Non-competitive procurement procedures is warranted

⁴Funds identified as available for PY 1996 consisted of \$236,389 in unspent prior years' funds and an additional \$1,563,777 in funds allocated for PY 1996.

to allow for maximum flexibility in program management and to serve the needs of individual participants. [sic]

The PIC staff will use per the revised PMM and its internal procurement procedures, the non-competitive procurement alternative of Unsolicited Proposals. . . . [sic]

The PIC's urgency to commit the funds was such that proposals submitted in response to earlier RFPs that had been rejected as unresponsive were subsequently awarded as unsolicited proposals. For example, a contractor had submitted a proposal to provide women with preapprenticeship training to prepare them for entry into construction trades. The proposal was in response to an RFP issued by the PIC and included proposed training costs of \$1,600 per participant.

Correspondence dated September 9, 1996 from the PIC staff, recommended the contract not be funded, because its costs were not considered reasonable when evaluated against other proposals. Yet on March 31, 1997, following identification of uncommitted funds, a preagreement letter was signed with the same contractor and committed the PIC to similar training, at a cost of \$4,935 per participant. (See Attachment C-11.)

JTPA program regulations at 20 CFR 627.420 (d)(iv)(B) caution against using sole-source procurement, except in extraordinary circumstances, such as where:

(ii) The public exigency or emergency need for the item or service does not permit a delay resulting from competitive solicitation.

Neither the circumstances nor rationale applied by the PIC is an acceptable reason for the use of sole-source procurement. Rather, the use of sole-source procurement resulted from lack of adequate planning.

***Contractors' Capabilities
Were Not Evaluated***

In some instances we did not find evidence that the PIC had evaluated the contractors' capabilities of satisfying program objectives or adequately serving participants for the 14 contracts we examined. Rather, the PIC continued to contract with some service providers that had poor records of success.

The JTPA regulations at 20 CFR 627.422 emphasize the importance of determining service providers' capabilities when considering an award of funds:

Awards are to be made to organizations possessing the demonstrated ability to perform successfully under the terms and conditions of a proposed subgrant or contract. Such determinations shall be in writing. . . .

Critical indicators of suitability that are identified in JTPA regulations include the contractor's financial stability, ability to meet program design specifications and performance goals. Emphasis is placed on a satisfactory record of past performance, as measured by reasonable participant dropout, employment earnings and job retention rates.

In conflict with program requirements, the PIC continued to contract with some service providers who were not successful in serving participants. For example, two of the contractors' PY 1996 performance standards, identified in the contracts, indicated participants they served were to have achieved a participant employment rate of 85 percent. Both contractors fell significantly below the standard (36 and 46 percent), yet both were awarded PY 1997 contracts. (See Attachments C-1 and C-4.)

The Reasonableness of Contractors' Costs and Pricing Data Were Not Adequately Determined

Often, contractors were not required to supply sufficient information for the PIC to determine the reasonableness of proposals. Some contracts that were approved lacked basic information common to any training agreement, such as the period of performance, funds obligated or number of participants to be served. When the information was present, the PIC did not complete sufficient cost or price analysis of the data to determine its validity or accuracy.

JTPA regulations require each recipient establish standards and perform a cost or price analysis in connection with every procurement action prior to the award of any contracts. Cost analysis is a component-by-component evaluation of cost estimates in a respondent's proposal. JTPA regulations at 20 CFR 627.420(e)(2) also require that a cost analysis be completed for every procurement:

. . . when the offer is required to submit the elements of the estimated costs, when adequate price competition is lacking, and for sole source procurements, including modifications or change orders. . . .

Line item budgets were required for six of the contracts (three cost reimbursable and three fixed-unit-price contracts) we examined. In some instances, data supplied by contractors in support of budgeted

costs were inadequate to determine the reasonableness of proposed costs. In other instances, we found no indication that information supplied by the contractors was evaluated by the PIC's staff. Instead, information included in the proposals was sometimes contradictory, yet the proposals were accepted. For example, cost estimates offered as support for prices charged by the contractors in three of the proposals or subsequent contract modifications included costs that applied to time frames that exceeded the contracts' periods of performance.

Large variations in prices for nearly identical services also indicate the lack of scrutiny proposals received by the PIC's staff. For example, one contractor was awarded fixed-price contracts, in two consecutive years, to train participants. The PY 1996 and 1997 contracts were to serve 25 and 15 participants, respectively. The two contracts' statement of work, objectives, scope and length of participant training were identical, as were budgeted cost estimates for personnel, equipment and supplies. However, the average cost per participant of the PY 1997 contract was 34 percent higher than that of the PY 1996 contract.

We noted some cost estimates contained in PY 1997 contracts appear to have been copied from the previous year's contract, without consideration for changes in the scope of the activities. For example, a PY 1997 contract's training supplies budget included the cost of 30 texts/workbooks, as was identified in the PY 1996 contract. However, only 15 participants were to be trained in PY 1997. (See Attachment C-1.)

In addition, other proposals we examined contained mathematical inaccuracies, summary cost estimates did not agree with the totals on supporting schedules, and other irregularities that should have been identified through the PIC's review.

Provisions of Fixed-Price Contracts Were Improper

Provisions of some contracts awarded by the PIC limit the contractors' exposure to financial risks for poor performance and could have allowed the contractors to receive excessive profits.

JTPA regulations allow the use of performance-based, fixed-unit-price (fixed-price) contracts as a means of encouraging better service to participants. Fixed-price training contracts typically contain several payment points that are triggered by participants' progress in reaching benchmarks. For example, a \$20,000 contract to train 20 participants at an anticipated cost of \$1,000 per participant might contain provisions that the contractor receives \$100 when a participant was enrolled in the program, \$300 when the participant completed training, \$400 when the participant was placed in a job, and \$200 if a participant remained in his or her job with the same employer for a certain length of time.

It is intended that fixed-price contracts reward the contractors' success in serving participants with profits (program income if the contractor is a nonprofit entity) and discourage poor performance with losses. However, improperly negotiated, fixed-price contracts can result in the contractors receiving excessive profits, without providing good services to participants. Consequently, JTPA regulations at 20 CFR 627.420 contain provisions to help prevent abuses of fixed-price contracting. In addition to a cost or price analysis, the regulations require that fixed-price contracts incorporate the contractors' risk as an element in determining contract price, profits may not be excessive, and when profit or program income is included as an element of a contract's price, it must be negotiated as a separate item.

However, provisions in all three of the PIC's fixed-price contracts we examined reduced the contractors' exposure to risk for poor performance and provided opportunities for some of the contractors to earn excessive profits. Calculations of benchmark payments were not based upon the contractors' success in serving the numbers of participants enrolled in the program. Rather, successive benchmark payments were based upon declining numbers of participants reaching the next benchmark. The diminishing expectations improperly reduced the contractor's risks and inflated the contract price.

To illustrate, the Atlanta PIC awarded a nonprofit organization a fixed-price contract to serve 25 participants. The contractor provided a budget that contained a total cost estimate of \$95,106 to serve the participants and included a payment schedule that allowed the contractor to recover his estimated costs.⁵ However, the payment schedule was not based upon the number of participants that entered the program. Rather, the payment schedule was based upon calculations that:

- c 25 participants would be enrolled in the program;
- c 20 participants would remain in the program at the midterm;
- c 17 participants would complete training;
- c 15 students would be placed in employment; and
- c 12 participants would be retained, for specified lengths of time, by their employers.

⁵ We noted costs included in the contractor's estimates that could not appropriately be charged to participant training. In addition, the contractor's cost estimate and payment schedule contained computational errors that were not detected by the PIC. Only five participants were placed. However, all were employed by the contractor at a placement cost of \$1,946 each. Three of the participants remained employed for less than one quarter and earned substantially less in wages than the contractor's placement fee. Although the contract's provisions eliminated much of the risk, poor performance resulted in the contractor not earning enough to recover estimated costs. Also, the contractor was advanced funds of \$8,118 that were not recovered by the PIC.

The contract schedule allowed payments of \$138,600, which could have resulted in the contractor receiving profits of \$43,494, or 46 percent of the contract total. The JTPA regulations allow reasonable profits or program income (revenues in excess of costs) for a private or nonprofit contractor, if profit is properly negotiated as a separate element of the price. However, we found no evidence that profit or program income had been negotiated.

Further, the contractor was a nonprofit organization. We question why a public service nonprofit organization would require a profit incentive to assist the public and believe a cost-reimbursable contract would be more appropriate. Nonetheless, had the contract resulted in program income, the contractor should not have kept the income. Rather, program income must be used to provide additional JTPA services, in accordance with requirements at 20 CFR 627.450(c). These restrictions are not identified in the PIC's contracts. (See Attachment C-1 for a further discussion of this contract.)

***The PIC Did Not Evaluate
The Reasonableness of Prices
Charged for Training***

Proposals for 8 of the 14 contracts we examined were submitted as CATPs. Four of the eight contracts were not competitively procured. Respondents either did not provide information required by the RFPs or the PIC's staff did not follow established procedures and evaluate the

information respondents had provided to ensure the proposals were legitimate CATPs.

The JTPA allows the cost of training packages, widely offered to the public, to be procured without a cost analysis, if adequate competition is present. Section 141 (d)(3)(A) provides:

Commercially available training packages [CATPs], including advanced technology, may be purchased for off-the-shelf-prices and without requiring a breakdown of the cost components of the package if such packages are purchased competitively and include performance criteria.

Program regulations at 20 CFR 627.420(e)(2) provide further guidance. The regulations indicate CATPs may be procured through price analysis, if ample competition is available and the reasonableness of prices can be established:

. . . on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation.

The PIC's PY 1996 RFP solicitation defined requirements for proposals that could be considered as CATPs. Respondents were required to provide an attachment that contained information to establish that the proposals were valid CATPs and for the PIC to complete a price analysis.

The RFP required that to be considered as CATPs, the training must have been available to the general public for at least 6 months before the RFP was issued. The RFP also required that at least 20 packages must have been sold and that non-JTPA users had to account for at least 30 percent of the respondent's sales. Other information that was required included the date services were first offered for sale, the price, sales for the previous 6-month period, and the percentage of a respondent's revenue generated from sales to non-JTPA users.

To evaluate the effectiveness of the training, respondents were also directed to provide performance criteria, participant placement rates, and wages. In addition, responses were to include a copy of the most current catalog describing the training and courses currently available, rules governing the training, the duration and cost of training. Finally, respondents were required to list 15 non-JTPA purchasers of the services being offered.

Although information required by the RFP and the PIC's procedures for reviewing the data were appropriate for determining whether the proposals were bona fide CATPs, it was not evaluated. We found:

- C two respondents did not provide information required by the RFP to determine if the training offered was a CATP; and
- C six respondents submitted information required by the RFP, however, there was no evidence the information was verified by the PIC.

Further, four of eight proposals accepted as CATPs were not competitively procured and did not satisfy JTPA criteria that ample competition be present to establish the reasonableness of the respondent's price.

There were wide variations in the prices charged by the PIC's contractors for like participant services. For example, two of the contracts we examined provided training to assist participants in obtaining commercial driver licenses and finding jobs as tractor/trailer operators. While the objectives and length

of training were the same, there was a 78 percent difference in the price (\$3,550 compared to \$1,989) for training a participant between the two packages. Although the higher-priced training did provide for participant lodging, the contractor indicated the cost of the lodging averaged only \$220 per participant. The PIC did not determine if the remaining \$1,341 difference was reasonable. (Refer to attachments C-9 and C-10.)

RECOMMENDATIONS

To help strengthen the PIC's management of its contract procurement process, we recommend the PIC develop and implement procedures which ensure:

- JTPA service providers are identified early in the planning process and competitively procured.
- Cost and price analysis, which include budgeted cost negotiations, are completed in accordance with JTPA regulations, prior to the award of all contracts. Profits or program income, if included, should be negotiated as a separate element of the price in accordance with JTPA regulations.
- Contract proposals should be accepted as CATPs and treated as such for purposes of procurement, only if they are properly evaluated and satisfy all JTPA requirements.

We question \$388,299 in expenditures related to CATP contracts which did not meet JTPA requirements. Unless the PIC can provide additional documentation establishing that the costs are allowable, they should be recovered. Details of questioned costs related to specific CATP contracts we reviewed are provided in Attachment B of the report.

ATLANTA PIC'S RESPONSE TO THE DRAFT REPORT

The Atlanta PIC believes its stewardship over the contract procurement process was adequate. The PIC responded that it followed all JTPA and GDOL requirements. The PIC stated that its use of noncompetitive procurement process was in accordance with GDOL procedures and Federal guidelines, and was necessitated because of the limited number of proposals received in response to the PY 1996 RFP.

According to the PIC, documentation of CATPs met Federal and GDOL guidelines. The PIC also commented that it required prospective contractors to provide, “an attestation of cost and price” which was accepted by GDOL as adequate.

The PIC stated that OIG did not review contract “working file” documents or files of staff individuals responsible for contract development. Also the PIC indicated that individual staff members no longer maintain individual files and all files related to a specific contract have been centralized.

OIG’S CONCLUSION

We continue to believe that the Atlanta PIC’s stewardship over its contract procurement process was inadequate. Our major concerns, as discussed in this report, were the PIC’s failure to (1) evaluate the contractors’ capabilities of satisfying program objectives; (2) identify unsupported cost in contractor budgets; (3) resolve large variations in prices for nearly identical services; (4) properly negotiate provisions of fixed-unit-price contracts; and (5) discontinue awarding contracts to those providers who were not successful in serving participants.

We disagree with comments that competitive price analysis was impossible because of the limited number of contractor proposals it received. On April 9, 1996, the agency reviewed a total of 14 PY 1996 proposals. The PIC’s log indicates it received a total of 35 unsolicited proposals during the period February 14, 1996 through June 13, 1997. While additional proposals may have resulted in better cost comparisons, we do not agree that competitive price analysis was impossible. We continue to believe lack of competitive procurement resulted from the PIC’s urgency to commit PY 1996 JTPA funds that were not identified as available until late in the year.

The Atlanta PIC responded that all GDOL procurement requirements were followed. However, the GDOL’s program review of the Atlanta PIC’s PY 1996 activities indicates otherwise. GDOL reported that significant problems in the PIC procurement practices were a long-standing concern. GDOL stated that while adequate procedures had evolved in response to previous reviews, they were not being used, or were not used effectively to analyze proposals and negotiate program costs to ensure quality services were purchased. Many of the deficiencies reported by GDOL mirror our findings. Specifically, GDOL found:

- Offeror’s past performance was not considered in the evaluation of seven unsolicited proposals accepted late in PY 1996.

- Cost analysis worksheets were filled out but raise few questions regarding costs, and do not indicate any follow-up on the unanswered questions.
- In some cases, costs were indicated to be reasonable but the documentation revealed the costs were not reasonable.
- Atlanta PIC's procedures require that 25 percent of the sales of a CATP must be to the general public. Yet, PIC staff consistently failed to document that commercial vendors met this requirement during this and past reviews.
- Some contract budgets were overstated or calculated inaccurately.
- Late execution of contracts by the PIC continued to cause problems.

We disagree with the PIC's assertion that its documentation of CATPs met Federal guidelines. The JTPA and Federal regulations require the evaluation of data included in proposals submitted as CATPs. Federal criteria (20 CFR 626) state that it will not be sufficient for a training provider merely to claim its services are available to the public and that the services are utilized by them. The SDA must be able to show that the services actually are available and utilized by the public.

Regarding the PIC's assertion that the OIG did not review contract "working file" documents and staff files, during our review of the 14 service provider contracts, we requested for review any and all contract, participant, and monitoring files maintained by the PIC or its contractors. The Atlanta PIC was also provided the opportunity to provide additional data in their response to our SOFs on individual contracts and the draft report. All data provided to us were considered in preparing this report.

Our findings and recommendations remain unchanged.

CHAPTER II

EFFECTIVE MONITORING COULD HAVE IMPROVED SERVICE DELIVERY AND REDUCED PROGRAM ABUSES

The Atlanta PIC's monitoring of the contractors' activities was insufficient to ensure service providers fulfilled their obligations or to evaluate whether participants benefited from the training. While a poorly executed monitoring plan deserves blame, contracting problems also reduced the effectiveness of the PIC's monitoring. We identified a variety of program and financial concerns effective monitoring should have identified and helped eliminate.

The PIC's Monitoring Did Not Conform With Planned Efforts or Established Procedures

The PIC developed a plan for monitoring its PY 1996 contractors and a monitoring procedures manual, which provided sufficient guidance to staff on how to conduct monitoring. However, the plan was not fully implemented and the scope of the monitoring that was completed was not adequate to properly evaluate the contractors' performance or prevent abuses.

The PIC developed a plan for monitoring its PY 1996 contractors and a monitoring procedures manual, which provided sufficient guidance to staff on how to conduct monitoring. However, the plan was not fully implemented and the scope of the

Section 165(c) of the JTPA requires that recipients monitor the performance of service providers in complying with terms of grants and contracts. In addition, JTPA regulations at 20 CFR 627.475(e)(1) require that the PIC, pursuant to standards established by the Governor, implement specific policies for monitoring performance which must be described in an annual job training plan. GDOL's policies and procedures (PMM86) require that the scope of the monitoring system and procedures must include compliance, financial, programmatic and performance monitoring.

Monitoring of Contractors' Performance Was Incomplete. The contractors received some attention from the PIC's staff, including limited monitoring of their performance, through the use of procedures that sometimes included participant interviews and reviews of attendance records. Most often, monitoring was limited to a review of information available prior to the award or documentation of activities that had occurred after the training had concluded.

However, none of the files we reviewed contained evidence the monitoring was of sufficient scope to comply with the PIC's established procedures. There was little evidence that effective procedures identified in the PIC's monitoring manual for assessing ongoing activities were applied. For example, unannounced class room visits, proctoring of participant examinations and evaluating the knowledge or

skills participants had gained from the training would have been effective in assessing the contractors' performance.

Fiscal Monitoring of Contractors' Activities Was Also Weak. Improvements are also needed in the PIC's oversight of the contractors' financial activities. Costs charged to the JTPA program from five of the PIC's contractors were not supported. Specifically:

- Two contractors were advanced funds totaling \$10,428 that were not recovered.
- One contractor did not provide adequate documentation for \$24,261 related to staff salaries and fringe benefits and the cost of training materials charged to the program. In addition, the PIC charged expenditures of \$14,473 associated with the contract to the wrong grant.
- One contractor received \$6,968 in fixed-fee payments for enrolling participants in training. However, participants' attendance was not supported by signed class rosters, as required by provisions of the contract. Also, \$1,048 paid to the contractor for placing a participant was subsequently found improper, but the funds were not recovered from the contractor.
- One contractor's charge of \$5,570 that available documentation indicated was related to a PY 1992 contract was used to offset funds advanced to the contractor in PY 1996.

JTPA regulation at 20 CFR 627.425(a)(1) require grantees' financial management and participant data systems to adequately document and report upon financial and participant activities. In addition, Section 164 of the JTPA and Federal regulations at 20 CFR 627.435 require that allowable costs must be necessary and reasonable for proper and efficient administration of the program and be allocable charges.

The items discussed do not conform with the requirements. Consequently, we have questioned a total of \$62,748 charged to the PY 1996 JTPA Title IIA grant. (See Attachment B, "Other" column for a reference to detailed discussions of problems identified with each of the contracts.)

Had the PIC's monitoring plan been fully implemented and existing procedures followed, many of the problems we discuss could have been identified and corrected. However, improvements in monitoring

efforts must be coupled with better contract provisions that clearly establish the contractors' responsibilities, to be effective.

Contract Provisions Did Not Contain Sufficient Criteria to Evaluate Participants' Training

We found that the contractors' effectiveness in serving participants often could not be adequately monitored because the contracts did not clearly identify the contractors' obligations or the PIC's expectations of what was to be accomplished. Of the 14 contracts and related files we examined, 6 contracts (43

percent) did not contain adequate criteria to monitor the contractors' performance. Specifically:

- two contracts did not identify the training curricula that participants were to receive;
- two contracts did not establish prerequisite knowledge students needed to enroll in the program (entrance criteria), or criteria to measure knowledge or skills of those who completed training were expected to have gained (exit criteria); and
- two contracts contained neither training curricula nor entrance/exit criteria.

The PIC did not require these elements to be included in the contracts and contractors were not obligated to provide them. As a result, objective criteria necessary to monitor the contractors' performance and measure the impact of training on participants was not available.

Often Contractors Did Not Apply Entrance/Exit Criteria

Even when entrance/exit criteria were included in the contracts, monitoring was insufficient to ensure the contractors applied them.

Ten contracts we reviewed contained program entrance criteria, exit criteria or both. The criteria are important because they establish basic levels of knowledge and other requirements participants need to benefit from training and provide minimum standards to gauge what a participant has gained from the program. However, in one-half of the contracts we examined that had such provisions (5 of 10), program participants failed to meet either entrance or exit criteria.

The enrollment requirements varied among contracts, although many of the contracts we examined required participants to have high school or equivalent educations. However, often the requirements were not applied. For example, one contract had the stated purpose of providing applicants with

English language instruction, computer skills and employment placement assistance. The contract's provisions indicated that participants should be high school graduates or have obtained general equivalency diplomas (GEDs) and have, at a minimum, ninth grade mathematical skills. However, 27 percent of the participants (7 of 26) enrolled in the program had educational levels below this requirement. While the contract required ninth grade mathematical skills, one-half (13 of 26 participants) scored below this level. Also, we did not find evidence that the contractor had attempted to determine if any of the 26 participants met enrollment requirements that they be drug-free and not have felony convictions.⁶

Participants With Poor Entry-Level Skills Would Have Benefited From Remedial Training.

Of particular concern are the participants associated with the contracts we reviewed that did not meet basic skills requirements and did not receive remedial training.

“Basic skills deficient” is defined in Section 4 (31) of the JTPA as:

... English reading or computing skills at or below the 8th grade level, on a generally accepted standardized test or a comparable score on a criterion-referenced test.

The JTPA's provisions and program regulations also require that participants be provided with basic skills training when assessment indicates it is needed. During assessment, the PIC identified many participants who were deficient in mathematics and reading. In the contracts we examined that had entrance requirements, 55 percent of the participants enrolled (68 of 123) did not meet the requirements. According to memoranda issued by the PIC, remedial training was to be provided by the contractors, as necessary. Yet, we did not find evidence that participants received remedial-skills training.

We believe that remedial training would have benefited many of the participants by increasing the knowledge they gained from training and would have improved their chances of obtaining long-term employment. As with other concerns we have discussed, these deficiencies should have been identified and corrected through routine contract monitoring.

Often Documentation Necessary to Determine if Exit Criteria Had Been Met Was Not Available. Adequate documentation necessary to determine whether participants received the training

⁶Requirements that participants be drug and conviction-free are important criteria for participation in a program because many employers will not hire participants with criminal records or those who test positive for drug use.

the contractors had agreed to provide was not available in either the PIC's or the contractors' records for 10 of the 14 contracts we reviewed.

JTPA regulation at 20 CFR 627.425(a)(1) require that financial management and participant data systems document activities in a manner that are, “. . . *verifiable for monitoring, reporting, audit, program management and evaluation purposes.*”

Further, JTPA regulations at 20 CFR 628.520(d) require that an individual service strategy be developed for each participant and that each participant's progress be monitored:

. . . to evaluate the progress of each participant in meeting the objectives of the service strategy, including an evaluation of the participant's progress in acquiring basic skills, and occupational skills, as appropriate, and the adequacy of the supportive services provided.

However, participant training records were not available from two contractors⁷ and the information maintained by eight other contractors was not sufficient to determine the training participants received. As we were unable to evaluate the training provided participants, we question the PIC's ability to monitor participants' achievement of their educational and occupational objectives.

For example, the provisions of one contract called for participants to receive a minimum of 300 hours of classroom training and attain a minimum score of 70 percent on a final examination, or maintain an average overall score of 70 percent. Participants' attendance records kept by the contractor were incomplete. Consequently, we were unable to determine the number of classroom hours of instruction students were provided. Regarding academic requirements, the contractor indicated that students received points for skills they mastered. While the contractor assigned a final grade to each student, they were not supported by graded examinations. (See Attachment C-14.)

In another instance, the contractor administered midterm and final examination to participants. However, both examinations contained the same questions. Consequently, participants' knowledge of subject areas taught during the second half of the training course were not tested. (See Attachment C-1.)

⁷One of the two contractors was out of business and the records could not be located. (See Attachment C-8.) Concerns involving the other contractor that did not maintain participant training records are discussed in Attachment C-5.

We have questioned \$215,126 related to 3 contracts in which adequate participant training records were not available. (See Attachment B, heading “Training Records Unavailable” for a discussion of the affected contracts.)

Participants Did Not Meet Exit Criteria in Several Contracts. In two of the contracts where documentation was sufficient to evaluate the activities that had occurred, we found that participants reported as having completed training had not met the contracts’ exit criteria.

For example, one contract called for participants to receive a minimum of 800 hours of instruction and following completion of the program, at a minimum, be capable of typing 45 words per minute. None of the 23 participants reported as having completed training received 800 hours of instruction and participants’ test scores indicate none satisfied contract provisions of typing 45 words per minute. (See Attachment C-4.)

We have questioned \$105,656 involving two contracts in which provisions of the contracts were not satisfied. (See Attachment B, heading “Exit Criteria Not Met” for a discussion of the problems identified in the contracts.)

In addition, we have questioned \$3,600 paid to a contractor who placed participants in JTPA-subsidized on-the-job training (OJT) positions through another of the PIC’s contractors. The contract’s provisions allowed the contractor to receive placement fees only if participants were placed in full-time, training related, unsubsidized jobs. (See Attachment B heading “Questionable Placements.”)

RECOMMENDATIONS

To help strengthen the PIC’s program monitoring and fiscal oversight, we recommend that the PIC ensure that:

- Service providers are monitored in accordance with JTPA requirements and the PIC’s monitoring procedures. A monitoring plan should be implemented that anticipates completing reviews of all service providers and the scope of the monitoring should conform with established procedures.
- Contracts contain clear training curricula and criteria with which to evaluate participants’ gains and the contractors’ effectiveness. The contractors should also be monitored to ensure they provide the training or other services specified in the contracts.

- Participants assessed as deficient in basic skills receive remedial training, either apart from or in conjunction with occupational training. The training should be documented. Participants found in need of training to meet more stringent program entrance requirements should also be provided training.
- Records sufficient to evaluate training received by the participants are maintained, in accordance with JTPA regulations.
- Contractors' invoices are supported with adequate documentation before they are paid.
- Expenditures are charged to the proper program and funds advanced to the contractors are recovered.

We recommend recovery of the following costs, unless the PIC can provide additional documentation that establishes the costs are allowable:

- \$105,656 related with contracts in which program participants did not satisfy exit criteria;
- \$215,126 of unsupported expenditures involving participant training;
- \$3,600 in fees paid to a contractor for placing participants, through another of the PIC's contractors, in JTPA-subsidized jobs; and
- \$62,748 in expenditures for contract payments which were not supported.

Details of questioned costs related to specific contracts we examined are provided in Attachment B of the report.

ATLANTA PIC'S RESPONSE TO THE DRAFT REPORT

The PIC acknowledged that weaknesses existed in its monitoring system during PY 1996. However, the PIC disagreed with OIG's statement that six contracts did not contain adequate entrance or exit criteria to monitor the contractors' performance. According to the PIC, these were legitimate CATP contracts, and the contractors' catalogs established the prerequisite knowledge participants needed.

The PIC agreed that the contractors failed to adequately document participant progress and completion. However, the PIC stated that participants met entrance and exit criteria. The PIC said that exit criteria in most cases is a “target.” The PIC cited one contractor’s 90 percent placement rate as evidence that participants were being effectively trained.

The PIC acknowledged that remedial training was not documented on a consistent basis, but stated that it was integrated with vocational skills competencies.

The PIC indicated it is acceptable for the same questions to be on midterm and final examinations. According to the PIC, this is a teaching technique of “repetition and reinforcement,” that is especially useful for participants with basic skill deficiencies.

The PIC disagreed with our questioning \$3,600 paid to a contractor for placing participants into JTPA-subsidized jobs. Finally, the PIC stated it had incorporated all OIG recommendations prior to the OIG report.

The Atlanta PIC made additional specific responses relating to our individual findings on the 14 service provider contracts we audited. We have summarized the PIC’s response and our conclusions on the responses are in Attachments C-1 through C-14. Exhibit I contains the PIC’s complete response.

OIG’S CONCLUSION

While we were able to locate criteria (course curricula, training hours, entrance/exit standards, completion measurements) in some of the files reviewed, the files did not include sufficient criteria to allow monitoring of the contractors’ effectiveness in serving individual participants. In some instances, while the criteria were available in the contracting files (i.e., contract negotiation checklist or contractor proposals), it was not incorporated into the contract or contained in the contractor’s course catalog. Documentation was not present to determine what the contractors were required to provide the participants. Of further concern is the contractors’ failure to document participant progress and completion. Without such information, the PIC cannot adequately evaluate participants’ progress or the contractors’ success in meeting the objectives of the training.

The PIC’s response that participants with basic-skills deficiencies received help from the contractors as part of their skills-specific training program does not agree with information provided to us during our fieldwork. As discussed, we identified memoranda issued by the PIC requiring remedial training be

provided by the contractors. However, during our contract reviews, we did not find evidence that participants identified as skills deficient received the required remedial-skills training. We continue to believe that the lack of remedial skills training contributed to the PIC's low adult "entered employment rate."

Although the PIC believes it is acceptable for midterm and final examinations to consist of the same questions, it did not offer an explanation as to how knowledge of subject areas taught participants during the second half of training was evaluated.

The PIC commented that a contractor's 90 percent placement rate indicates the transference of skills competencies. Regulations require that participants' knowledge gains acquired through basic and occupational skills training be assessed. Further, our review indicates questionable placements were claimed by this contractor on its PYs 1996 and 1997 contracts.

Regarding the PIC's contention that we should not have questioned \$3,600 paid to a contractor for placing participants in JTPA-subsidized jobs, we questioned the costs because no documentation was provided us that supported the benchmark placements. Contract requirements provided that placement benchmark payments would be made when participants had worked a minimum of 5 days in training-related, verified, unsubsidized, full-time employment of at least 35 hours per week. The PIC's response did not provide documentation which supports the payments.

The Atlanta PIC provided us with documentation to support costs of \$1,048 questioned in the draft report. (See Attachment C-6.) However our questioned costs remain the same, as the costs were questioned for more than one reason. Our findings and recommendations remain unchanged.

EXHIBIT I

CLICK HERE FOR ATTACHMENTS